

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NORTH MARSHALL WATER DISTRICT APPLICATION)	
FOR (1) CERTIFICATION OF PUBLIC CONVENIENCE)	
AND NECESSITY (2) APPROVAL OF FINANCING)	CASE NO.
THROUGH K.I.A. (3) GENERAL RATE INCREASE)	94-003
(4) REQUEST FOR APPROVAL OF VARIANCE ON)	
FINANCIAL DATA)	

O R D E R

On January 28, 1994, North Marshall Water District ("North Marshall") filed an application seeking authorization to construct a waterworks improvement project, for approval of its plan of financing and for an adjustment of its water service rates.

Commission Staff conducted a limited financial review of North Marshall's operations and performed a cost-of-service study for the test year. Based upon this review, Commission Staff issued a report on April 15, 1994 recommending approval of the proposed increase in annual operating revenues of \$245,230.

To determine the reasonableness of the request a public hearing was held on May 3, 1994. The Kentucky Department of Parks, Phyllis J. Kollar, Bessie Elliott and Corrine Whitehead for the Coalition for Health Concerns intervened in this case and participated in the hearing.

On May 26, 1994, the Commission issued an Interim Order approving the proposed construction, financing and revenue requirement requested by North Marshall and recommended by Commission Staff. None of the intervenors objected to these

issues. The present Order addresses the Commission's findings and determinations on rate structure issues, in particular the appropriate methodology to be used in the rate design structure.

North Marshall's application included a rate analysis performed by Mr. Bill Tanner of the engineering firm of Florence and Hutcheson. North Marshall proposed to change its rate structure from an eight-step declining block schedule to a bimonthly customer charge with a flat rate per 1,000 gallons consumed. Commission Staff in its report recommended a bimonthly customer charge and a three-step declining block rate schedule. The primary issues before the Commission are the methodology to be used in determining the amount of the bimonthly customer charge and the number of steps to be used in setting the per 1,000 gallon water rate schedule.

Customer Charge

A customer charge is designed to cover certain fixed costs that are associated with serving customers, regardless of the amount or rate of water use. Each customer is charged a customer charge regardless of whether or not that customer uses any water during the billing period.

North Marshall's proposed customer charge was determined using guidelines developed by the U.S. Environmental Protection Agency to be used as a guide for designing rates for wastewater treatment plants. The EPA Guide provides for either a flat rate per customer or an equal rate per 1,000 gallons to be charged to recover debt service expenses. North Marshall deviated from the guide and

multiplied the percentage of total water used by each customer classification by the proposed debt service payment, then divided the debt payment for each classification by the number of bills in each classification to determine the customer charge. North Marshall developed its customer charge based on the theory that a customer using a certain percentage of the water should pay for that same percentage of debt service costs.¹

Commission Staff developed its customer charge based on the American Water Works Association's Manual M-1, Water Rates. The Manual M-1 defines customer costs as meter reading, billing, and customer accounting and collecting expense, as well as maintenance and capital costs related to meters and services. As set out in the Manual M-1, a detailed study segregates these costs between operation and business costs and Staff did so accordingly. Operation costs related to service and meter operations were allocated based on meter size. Business costs such as meter reading and billing and collecting were based on the number of bills issued as these costs do not vary with the meter size. Commission Staff stated in its report that certain costs are fixed and bear no relationship to the amount of water used. Therefore, North Marshall expends no more effort or expense to process a bill for a customer who used 500 gallons than for the customer who used 500,000 gallons.

¹ Transcript of Evidence, pages 20-22.

North Marshall's customers usage patterns range from an average bimonthly usage of 10,000 gallons for residential customers to an average of 8,000,000 gallons for a customer with a 4-inch connection. Under North Marshall's proposal the 4-inch connection customer who consumes an average of 4,000,000 gallons per month would pay 15 percent of all North Marshall's administrative and general costs since 15 percent of all North Marshall's water is sold to this customer. North Marshall argues that this methodology is fair since the administrative costs make up a minute portion of its total operating costs² and that ". . . what we are talking about is pennies because the administrative cost is nothing compared to the total cost of operating the system."³

Twenty-four years have passed since North Marshall last requested an increase in its rates. As North Marshall's witness stated, it is a grave mistake to let rates go years and years without an adjustment.⁴

The Commission notes that North Marshall's actual costs for administrative and general and customer accounts is \$220,549, or 26.30 percent of North Marshall's revenue requirement of \$838,504. The Commission cannot accept North Marshall's assertion that 26 percent of its total revenue requirement amounts to "pennies" or a "minute amount."

² Transcript of Evidence, page 112.

³ Transcript of Evidence, page 117.

⁴ Transcript of Evidence, page 98.

It is the responsibility of the Commission to ensure that all utility rates are based, as reasonably close as possible, on actual cost of service. Therefore the Commission cannot accept North Marshall's methodology of determining a customer charge. To do so would result in the larger users paying a disproportionate share of costs such as postage, office salaries, payroll taxes, meter reading and accounting and collecting expenses which do not fluctuate with the amount of water a customer uses.

Meter Replacement Program

North Marshall proposed in its rate analysis to implement a meter replacement program wherein selected existing meters would be replaced with proposed meter sizes selected from a meter sizing guide.⁵ The Staff Report recommended that the Commission deny the meter replacement program because the guide was inaccurate and that all customers' usage patterns should be reviewed if a meter replacement program were implemented by North Marshall.⁶

There is some confusion in the record regarding this issue. North Marshall testified that it was not recommending a meter replacement program but rather categorizing customers based on their usage.⁷ North Marshall further testified that it had proposed to eliminate the rate for 1-1/2 inch connections;⁸ however, it is noted that the rate analysis and newspaper notices

⁵ Rate Analysis, page 2.

⁶ Staff Report, pages 13-14.

⁷ Transcript of Evidence, page 20.

⁸ Transcript of Evidence, pages 104-110.

contain a proposed rate for the 1-1/2 inch connection. Further, North Marshall's application is based on revenue it expects to receive from customers with 1-1/2 inch connections.

The meter replacement program should be denied because the meter selection guide designed by North Marshall is inaccurate. If North Marshall meant to instead propose a customer reclassification program and not a meter replacement program, the Commission finds that this should also be denied. The Commission cannot permit a utility under its jurisdiction to charge a customer with a 1-1/2 inch connection the rate designed for a 2-inch connection.

Rate Per 1,000 Gallons

North Marshall proposed a flat rate per 1,000 gallons for all water usage and the Staff Report recommended a three-step declining rate schedule. After reviewing the evidence of record, the Commission finds that a flat rate per 1,000 gallons should be implemented in this case. The Commission believes that in this particular case a flat rate per 1,000 gallons will result in fair, just and reasonable rates for each of North Marshall's customer classes. The approved rate structure is a balance between North Marshall's desire that customers who use a certain percentage of the water should pay for the same percentage of expenses, and the Commission Staff's concern that the expenses included in the flat rate per 1,000 gallon component be those which fluctuate with the amount of water used.

Reconnection Fee

Because of the large number of seasonal residential customers who are connected to North Marshall's system during the summer months, North Marshall should file a tariff setting out reconnection fees that will cover the costs of serving these customers. The tariff should state that a reconnection fee will be assessed if a customer requests service be discontinued and subsequently re-establishes service at the same premises within twelve months. This fee should be designed to recover North Marshall's cost of providing adequate facilities and operations to serve these customers.

Wholesale Customers

North Marshall has contracts to sell water to Calvert City and the Reidland Water District; however, during the test year neither of the utilities purchased water from North Marshall. Staff recommended in its report that both utilities pay a monthly customer charge to North Marshall to pay for the cost of maintenance on the 4-inch connections. At the hearing North Marshall objected to the recommended customer charge, stating that the contracts provide a backup source of water to North Marshall as well as to Calvert City and Reidland Water District.⁹

North Marshall suggested that they be permitted to enter into a shared maintenance agreement with Calvert City and Reidland Water District. The Commission agrees with North Marshall that these contracts are in the best interest of its customers and that North

⁹ Transcript of Evidence, pages 40-42.

Marshall should file an executed agreement with the Commission setting out the agreed upon shared maintenance arrangements.

Contract with Jonathan Creek Water District

On October 11, 1993, North Marshall filed a proposed contract between it and Jonathan Creek Water District ("Jonathan Creek"), which provides for Jonathan Creek to purchase water from North Marshall. The contract also allows for North Marshall to purchase water from Jonathan Creek in an emergency situation.

North Marshall was not required to provide any funds in making the connection nor is it responsible for maintenance on the connection. The contract should be accepted insofar as it will benefit both utilities to have an alternative water source.


IT IS THEREFORE ORDERED that:

1. The rates proposed by North Marshall are hereby denied.
2. The rates contained in the Appendix to this Order, which is attached hereto and incorporated herein, are the fair, just and reasonable rates to be charged by North Marshall for service rendered on and after the date of this Order.
3. The meter replacement program based on the meter selection guide is hereby denied.
4. North Marshall shall file executed copies of the maintenance agreements between it and its wholesale customers within 60 days from the date of this Order.
5. North Marshall is authorized to sell or purchase water from Jonathan Creek pursuant to the terms of the agreement filed in this case.

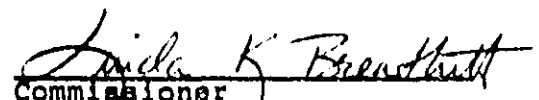
6. Within 30 days from the date of this Order, North Marshall shall file with the Commission revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 17th day of June, 1994.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 94-003 DATED June 17, 1994.

The following rates and charges are prescribed for the customers in the area serviced by North Marshall Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

BI-MONTHLY CUSTOMER CHARGE

5/8 inch meter	\$ 9.41
1.0 inch meter	14.86
1.5 inch meter	23.96
2.0 inch meter	34.88
3.0 inch meter	60.36
4.0 inch meter	96.76

WATER CHARGE

All Usage Per 1,000 Gallons	\$ 1.92
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